

Message Text

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ACTION SP-02

INFO OCT-01 ARA-14 ISO-00 AID-05 TRSE-00 EB-08 SS-15
OMB-01 COME-00 IGA-02 /048 W
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P 191010Z JAN 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 5682

UNCLAS SECTION 1 OF 2 BRASILIA 0450

E.O. 11652: N/A
TAGS: ECON, IN, ID, PK, RP, KS, BG, GR, BL, GT, TZ, ET, CM, EAID
SUBJECT: ASSESSMENT OF EFFECTIVENESS OF ECONOMIC ASSISTANCE; BRAZIL;
SOME EFFECTIVE PROJECTS; PART III

REFS: A) BRASILIA 413, B) BRASILIA 393,
C) BRASILIA 380, D) BRASILIA 022,
E) 77 STATE 306064

1. THIS IS THE FOURTH IN A SERIES OF MESSAGES ON THE
ASSESSMENT OF US ECONOMIC ASSISTANCE TO BRAZIL. THIS
TELEGRAM CARRIES PART OF THE QUOTE EFFECTIVE ENDQUOTE
PROJECT MENTIONED IN REF C. THE PROJECT LISTINGS DO
NOT FOLLOW ANY RANK ORDER OF PRIORITY IN THE SUCCESS
SCALE.

2. TWO PROJECTS FOLLOW:
A. SMALL AND MEDIUM INDUSTRY-512-L-087
THIS \$10 MILLION LOAN WAS SIGNED IN 1973 AND FULLY
DISBURSED THREE MONTHS BEFORE ITS TERMINAL DISBURSEMENT
DATE. THE GENERAL OBJECTIVE WAS TO INCREASE THE CONTRI-
BUTION OF THE SMALL AND MEDIUM INDUSTRY (SMI) SECTOR TO
THE OVERALL DEVELOPMENT OF BRAZIL'S NORTHEAST BY
STRENGTHENING THE INSTITUTIONS ON WHICH SMI DEPENDS
FOR FINANCIAL AND TECHNICAL ASSISTANCE. A COMPLETE
FINAL REPORT OF THE LOAN WAS PROVIDED AID/W IN
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BRASILIA AIRGRAM TOAID A-28, DATED NOVEMBER 23, 1977.
I. REACHING THE POOR: THE ABSORPTION OF THE
MIGRATING RURAL POPULATION INTO THE URBAN LABOR MARKET
HAS BEEN A SOCIO/ECONOMIC PROBLEM OF INCREASING
MAGNITUDE OVER THE LAST TWO DECADES FOR THE COASTAL
CITIES OF THE NORTHEAST. SMI HAS CONTRIBUTED GREATLY
IN SOLVING THIS PROBLEM BY PROVIDING AN EVER INCREASING

NUMBER OF JOB OPPORTUNITIES. THE LOAN PROGRAM, DURING ITS THREE AND ONE HALF YEARS, CREATED 5,348 NEW JOBS AT AN AVERAGE COST OF \$4,516 PER EACH NEW JOB.

II. SUCCESSFUL INSTITUTIONAL BUILDING: THE EXECUTING AGENT UNDER THE LOAN, THE BANK OF THE NORTHEAST (BNB), HAD ESTABLISHED PRIOR TO THE LOAN ITS OWN STAFF WORKING IN THE SMI SECTOR. DURING THE LOAN PROGRAM, THIS STAFF CONTINUED TO DEMONSTRATE ITS ABILITIES IN IMPLEMENTING A COMPLICATED PROGRAM WORKING WITH NINE SEPARATE STATES IN THE NORTHEAST. THE BNB ALSO WORKED DIRECTLY WITH THE STAFFS OF THE STATE DEVELOPMENT BANKS (RESPONSIBLE FOR APPROVING FINAL LOAN TO SUB-BORROWER) IMPROVING THEIR CAPABILITIES IN PROJECT ANALYSIS AND APPROVAL. THE BNB PROVIDED TECHNICAL ASSISTANCE TO THE NUCLEI FOR INDUSTRIAL ASSISTANCE, NON-PROFIT INSTITUTIONS IN EACH STATE ESTABLISHED TO PROVIDE ASSISTANCE TO THE PRIVATE BUSINESSMAN IN PREPARING HIS PROJECT FOR PRESENTATION TO PROSPECTIVE LENDERS.

III. MOBILIZING RESOURCES: AS RESULT OF THE SUCCESS OF THIS PROGRAM, THE BNB SIGNED IN AUGUST 1976, ADDITIONAL LINES OF CREDIT WITH ALL STATE DEVELOPMENT BANKS IN THE AMOUNT OF 235 MILLION CRUZEIROS (APPROX. 22 MILLION DOLLARS). A WORLD BANK LOAN IS CURRENTLY UNDER STUDY PROVIDING CREDIT FOR SUB-PROJECTS NEEDING TO IMPORT EQUIPMENT.

IV. MULTIPLIER EFFECTS: THE SMI PROGRAM IS AN UNCLASSIFIED

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ONGOING AND EXPANDING ONE.

V. RELEVANCE OF DONOR COORDINATION: THE BNB IN IMPLEMENTING ITS SMI PROGRAM HAS AND WILL CONTINUE TO CONFRONT THE VARYING SOCIO-ECONOMIC PROBLEMS AND PRESSURES THAT EACH STATE FACES IN PROVIDING CREDIT TO SMI. FOR EXAMPLE, THE STATE OF BAHIA DIRECTED ITS PROJECT EMPHASIS ON THE TOURISM INDUSTRY AND PUSHED FOR AN INCREASING NUMBER OF PROJECTS IN THIS SECTOR. THE BNB, ALTHOUGH NOT WANTING TO CUT OUT TOURISM PROJECTS COMPLETELY, WORKED WITH THE STATE DEVELOPMENT BANK TO DISTRIBUTE ITS SUB-PROJECTS INTO OTHER SECTORS. BY THE END OF THE PROGRAM ALL DONORS WERE FULLY COOPERATING IN MEETING PROJECT GOALS.

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TO SECSTATE WASHDC PRIORITY 5683

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VI. MEETING OF OBJECTIVES: A FULL DESCRIPTION
OF THIS IS CONTAINED IN THE LOAN'S FINAL REPORT (SEE
TOAID A-28 DATED 11/23/77).

B. WATER AND SEWERAGE LOANS-LOANS 512-L-074/080
THESE LOANS WITH THE NATIONAL HOUSING BANK (BNH), IN THE
AMOUNTS OF \$15.2 MILLION AND \$25.0 MILLION RESPECTIVELY,
HAD AS THEIR PURPOSE THE DEVELOPMENT OF LOAN SYSTEMS BY
THE BNH FOR THE CONSTRUCTION AND EXTENSION OF WATER AND
SEWERAGE SYSTEMS IN URBAN AREAS OF BRAZIL. SOME
TECHNICAL ASSISTANCE AND TRAINING WAS INCLUDED. BOTH
LOANS REQUIRED FINANCIAL PARTICIPATION BY THE STATES OR
MUNICIPALITIES. PROJECT ACTIVITIES TOOK PLACE BETWEEN
1970 AND 1975.

I. REACHING THE POOR: ALTHOUGH THE POOR ARE NOT
MENTIONED AS SUCH, WE BELIEVE THE GENERAL IMPROVEMENT
IN URBAN WATER SUPPLY AND SANITATION BENEFITED AT LEAST
A PART OF THE POOR POPULATION OF PARTICIPATING STATES
AND CITIES. OF THE ELEVEN STATES PARTICIPATING IN LOAN
074, FIVE WERE IN NE BRAZIL AND RECEIVED 51.6 PERCENT
OF THE AID FUNDS THROUGH 67 SUB-LOANS. ALL OF LOAN 080
WENT FOUR STATES IN NORTH AND NORTHEAST BRAZIL.

II. SUCCESSFUL INSTITUTION BUILDING: UP TO THE
TIME LOAN 074 WAS MADE, THERE WAS NO NATIONAL INSTITU-
TION TO WHICH STATES OR MUNICIPALITIES COULD APPLY FOR
FINANCIAL ASSISTANCE IN CONSTRUCTING WATER AND SEWERAGE
SYSTEMS. THE BNH FINANCED ONLY HOUSING. THE TWO
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LOANS HAD THE EFFECT OF TURNING THE BNH INTO AN URBAN
DEVELOPMENT BANK. MOREOVER, AS A RESULT OF THE
TECHNICAL ASSISTANCE AND TRAINING UNDER THE LOANS, BNH
BECAME ALERTED TO THE NEED FOR QUALITY CONTROL OF MATERIAL,
STRICTER ENGINEERING SUPERVISION, NEW DESIGN TECHNIQUES
FOR CONSTRUCTION COST SAVINGS AND ENVIRONMENTAL IMPACT;
BNH THEN BEGAN TO REQUIRE THAT PLANS ACCOMPANYING THE
REQUESTS FOR FINANCIAL ASSISTANCE SHOW THAT THESE CONCERNS

WOULD BE TAKEN CARE OF BY QUALIFIED CONSULTING ENGINEERING FIRMS.

III. MOBILIZING RESOURCES: INFORMATION ON THE EXACT FINANCIAL PARTICIPATION OF THE STATES AND MUNICIPALITIES IS NOT AVAILABLE BECAUSE LOAN FILES HAVE BEEN RETIRED. IT IS KNOWN, HOWEVER, THAT THE A.I.D. CONTRIBUTION WAS A RELATIVELY SMALL PERCENTAGE OF THE TOTAL INVESTMENT. MOREOVER, BNH HAS OBTAINED TWO WATER AND SEWERAGE LOANS FROM THE WORLD BANK, TOTTALING \$76.0 MILLION, AND ONE LOAN FROM IDB FOR \$15.0 MILLION.

IV. MULTIPLIER EFFECTS: IN ADDITION TO THE ITEMS MENTIONED IN II ABOVE, AT LEAST TWO INSTANCES OCCURED OF CITIES PUTING ASIDE PLANS FOR CONSTRUCTION OF NEW WATER PLANT FACILITIES WHEN THEY FOUND OUT THAT PRESENT FACILITIES COULD BE MADE MORE EFFICIENT THROUGH UPGRADING OR CHANGES IN OPERATING PROCEDURES, THIS WAS A RESULT OF TECHNICAL ASSISTANCE PROVIDED UNDER LOAN 074 AND SAVED MILLIONS OF CRUZEIROS.

V. RELEVANCE OF DONOR COORDINATION: THERE WERE SOME EARLY PROBLEMS WITH STATE CONTRIBUTIONS BECAUSE OF THE NEED FOR LEGISLATIVE APPROPRIATIONS. THE BNH WAS ABLE TO OVERCOME THIS, HOWEEVER. THE WORLD BANK AND IDB CONSULTED WITH US WHEN PREPARING THEIR LOANS TO BNH.

VI. MEETING OF OBJECTIVES: LOAN COMPLETION REPORTS (BRASILIA AIRGRAMS TOAID A-27, 2/28/75 AND TOAID A-10, UNCLASSIFIED

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2/11/76) STATE THAT OBJECTIVES WERE ACHIEVED.
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